UNITED NATIONS

DP

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.
GENERAL

DP/1997/9
23 December 1996

ORIGINAL: ENGLISH

Second regular session 1997
10-14 March 1997, New York
Item 3 of the provisional agenda
UNDP

OTHER FUNDS AND PROGRAMMES

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Report of the Administrator

Summary

UNCDF projects are largely directed by its focus on reducing poverty through approaches that promote good local governance, a dynamic private sector and the participation of civil society in development initiatives. To that end, UNCDF is increasing its activity in its innovative areas of intervention: local development funds, eco-development and microfinance. These efforts, carried out in close partnership with Governments and UNDP, build upon and support efforts in least developed countries towards democratization, decentralized decision-making and the devolution of resource management to local government authorities and community organizations. Based on the recommendations of a capacity assessment report, UNCDF is currently revising its entire project cycle to allow for increased local participation in project design. It also is working to integrate fully all lessons learned into key decision-making stages of the project cycle.

The Executive Board may wish to take note of the Executive Report, to endorse and support the efforts of UNCDF to concentrate its area of activity on good local governance, decentralization and participation within the context of its mandate, and to encourage all countries to increase their contributions to the Fund.

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I. PURPOSE AND BACKGROUND

1. The present report responds to Executive Board decision 95/9, in which the Board encouraged the Administrator to continue to refine the community development focus of the United Nations Capital Development Fund (UNCDF).

2. In the light of Executive Board decision 95/9, UNCDF has brought dramatic change to the way that it does business. The Fund has refined its focus, taken risks, initiated steps to maximize the impact of its programmes and strengthened its resource mobilization to the point where the contribution UNCDF makes to the overall development picture is far greater than its relative size. In fact, precisely because it is small, UNCDF is able to develop innovative and experimental approaches that can be replicated on a bigger scale by larger donors and other United Nations bodies. UNCDF has learned from its active engagement in community development that sustainable poverty reduction can come about only in an environment of good local governance and community participation. With the publication of its policy paper, Poverty Reduction, Participation and Local Governance: The Role for UNCDF, in August 1995, UNCDF formalized this new focus into official policy. An emphasis on local governance is meaningful only if UNCDF works in environments where key fiscal and managerial functions for capital investments in rural infrastructure are decentralized by Governments to the relevant local authorities, and where those authorities are able to make their investment decisions in direct consultation with civil society. Under these circumstances, the Fund is in a unique position to leverage its grant capital assistance as an incentive, binding together communities, local government and the private sector in partnership.

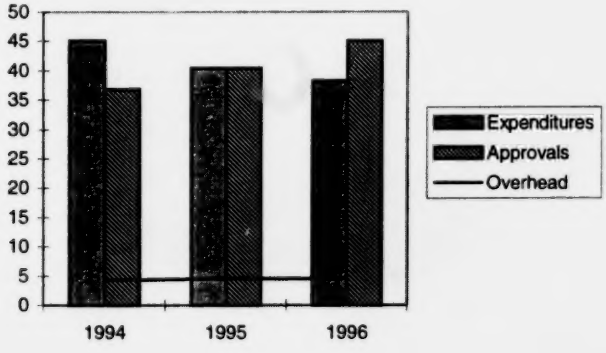
3. In November 1995, UNCDF presented its donors with a plan to make significant progress over the next three years towards achieving the objectives stated in the policy paper, provided that a sufficient level of financial security could be guaranteed. The Fund then requested sponsorship for a capacity assessment study to identify weaknesses that should be addressed to achieve the policy objectives. In its final report, presented in July 1996, the assessment team confirmed that UNCDF is capable of reaching the grass-roots level and with innovative project interventions and that it has the potential for playing an important catalytic role in international development cooperation. It was also stated in the re;port that much work remains to be done to implement the very ambitious policy UNCDF has chosen. In response to the assessment, UNCDF developed an action plan and is now implementing key recommendations. UNCDF has taken this challenge seriously: progress on implementation of the action plan will be reviewed at the end of 1997 and, two years later, the Fund's usefulness as an effective development organization for the twenty-first century will be determined. If UNCDF is not showing satisfactory progress by 1999, the donors may opt to stop their funding.

II. PROGRAMME ACTIVITIES

4. UNCDF activities in 1995-1996. Projects approved by UNCDF during the biennium have been largely directed by its focus on reducing poverty through approaches that promote good local governance, a dynamic private sector and the participation of civil society in development initiatives. These efforts,

carried out in close partnership with Governments and UNDP, build upon and support efforts in least developed countries (LDCs) towards democratization, decentralized decision-making and the devolution of resource management to local government authorities and community organizations. Field experience has shown that when ownership and administration are retained locally, there is a greater likelihood that investments will correspond to local needs and that infrastructure will be maintained beyond the project cycle. For this reason, UNCDF has continued to increase and expand its collaboration with local authorities, concentrating on more demand-driven mechanisms for the delivery of infrastructure, the planning and management of public investment programmes and capacity-building at the local level. New UNCDF project approvals totalled $40.4 million in 1995 and $50 million in 1996. While approvals are increasing, the Fund's reserves are declining. The reserves are kept at twice the mandatory level to ensure that UNCDF can meet its ongoing commitments for at least two years. In addition, UNCDF overhead costs have remained low. As a result of stricter financial controls, the amount in outstanding commitments also is dropping yearly, from $241.5 million in 1993 to $200.5 million in 1996 (see figure 1).

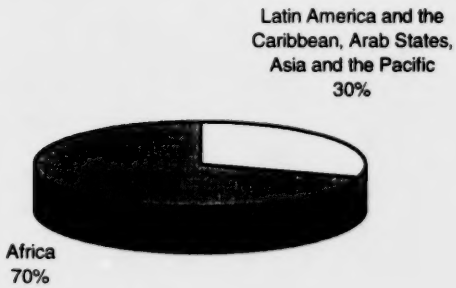
Figure 1 Expenditures, approvals and overhead, 1994-1996



5. True to its new policy focus, UNCDF has increased activity in its innovative areas of intervention: local development funds, eco-development and microfinance. During the former biennium, blueprint infrastructure projects, including irrigation schemes, rural roads, markets, water supply and sanitation systems, educational and health facilities, accounted for 73 per cent of funds approved. In the current biennium, these figures are decreasing slightly to allow for an increase in funding to local development and eco-development funds from the former level of 14 per cent to the current level of 44 per cent. Funding to credit and guarantee schemes increased from 7 per cent to 21 per cent. Currently, 70 per cent of UNCDF programme resources are being spent in Africa, with the remaining 30 per cent divided between Asia, the Arab States and Latin America (see figures 2 and 3).

Figure 2 UNCDF funding allocation 1993-1994 and 1995-1996

Figure 3 UNCDF geographic disbursement



6. Local development funds. Local development funds (LDFs) are decentralized financing facilities accessed and managed by local authorities and communities for demand-driven public investments in small-scale rural infrastructure. An LDF project in Cambodia ($3 million) provides funding for the construction of priority rural infrastructure projects that have been identified through a participatory planning process, involving communities at the grass-roots level. The second phase of a project in the Palestinian Territories ($3 million) was approved in 1996. The project is set up to empower village councils and communities to identify, prioritize, prepare and implement local micro-investment projects to improve socio-economic conditions. Micro-projects include rural roads, primary schools, land reclamation, waste management and health facilities. Another important component is to test the methodology for replication.

7. Eco-development. Eco-development is an approach that supports "eco-swaps", in which communities enter into contractual agreements to work towards long-term restoration of ecologically fragile areas in exchange for investments to meet immediate needs of the community, such as energy, irrigation or shelter. The eco-development project in Ambato Boeni, Madagascar, seeks to improve rural-urban migration patterns that have contributed to a deterioration of local ecosystems. The programme, totalling $5.8 million, has two components: a rural development initiative to support community management in 45 villages, and a project to improve urban-rural exchanges by establishing a municipal development fund to undertake urgent rehabilitation work. In Mauritania, the $11 million Assaba Regional Investment Programme awards local development contracts for sustainable village land management while financing economic and community development projects that have been identified by the local population as being of high priority.

8. Credit and guarantee activities. To respond to community needs and to identify innovative ways of extending credit, UNCDF supports decentralized and rural-based micro-credit schemes for the poor and assists local financial intermediaries (local branches of formal banks, NGOs offering financial services, village banks or cooperatives, etc.) to get the necessary capital to finance loans to micro-entrepreneurs. During the 1995-1996 biennium, the Fund brought credit opportunities to an increasing number of beneficiaries at the village and community level. For example, in partnership with UNDP, UNCDF assisted Lesotho in a $2.4 million project to achieve greater economic independence in part by promoting domestic entrepreneurship and employment opportunities. In addition to providing credit to small enterprises, the project extended a guarantee facility to the Lesotho bank as an incentive to reach out to small borrowers and strengthened the local credit extension network. In Mwanza, Tanzania, a $2.6 million project is creating mechanisms to mobilize local savings and supply credit to rural and urban micro-entrepreneurs. In a separate initiative, UNCDF also contributed as a founding member to the establishment of the World Bank-led Consultative Group to Assist the Poorest (CGAP). This group supports micro-finance institutions that deliver credit and/or savings services to the very poor.

9. Concurrent with its funding activities, UNCDF is actively engaged in promoting technical cooperation and dialogue among LDCs, allowing local development professionals to benefit from one another's experience. In 1995, UNCDF facilitated a seminar on district development planning to enable Ugandan officials to benefit from the experience of a UNCDF project in Quang Nam Da Nang Province, Viet Nam. A similar activity in 1996 enabled a group of professionals from Malawi to attend development and planning seminars in Uganda. These South-South exchanges also include initiatives to bring together researchers and practitioners involved in UNCDF local development fund projects in different countries to discuss common design and implementation problems.

10. UNCDF has initiated several fundamental changes that should improve the quality of new project design. While operating from a solid foundation of experience, the Fund is constantly reaching into new realms of experimentation to find innovative and more efficient ways to operate and to overcome challenges and obstacles. Based on the recommendations of the capacity assessment report mentioned above, UNCDF is currently revising its entire project cycle, which has

traditionally been headquarters-based. For example, the traditional programming mechanism, the planning and project identification mission (PPIM), has been abolished in favour of a more field-driven process that begins with dialogue and participatory planning at the local level. Project formulation has also been modified to incorporate systematically a variety of consultative processes, such as stakeholder workshops and participatory rural appraisals. In general, more investment is being made in pre-formulation activities, and adjustments in the project cycle emphasize verification of initial assumptions and more thorough consultation with partners.

11. Evaluations. From 1992 to 1996, UNCDF evaluated 44 projects, most of which were formulated before the implementation of the Fund's new policy focus. In line with its commitment to transparency, UNCDF has regularly published its evaluation results, both positive and negative. On the positive side, some projects achieved impressive success when they combined sound project concept with optimum involvement of beneficiaries. On the negative side, the findings indicated continued problems in the area of project design, frequent lack of institutional sustainability and often a partial achievement of objectives. Finally, the findings demonstrated mixed but steadily improving performances in community participation, equipment procurement and relevance, staff management and training, and time and cost overruns. New formulation procedures addressing these design problems were recently introduced, as mentioned above.

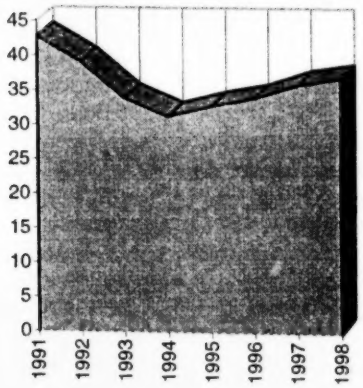
12. UNCDF has recognized that it needs an effective mechanism for the full integration of lessons learned into key decision-making stages of the project cycle. To this end, UNCDF is systematically preparing evaluation action plans that incorporate main recommendations to be implemented by project partners. Progress towards the fulfilment of these plans is monitored annually. The record so far has been satisfactory, with 50 per cent of recommendations fully implemented, 25 per cent partly implemented and only 25 per cent unobserved. UNCDF will establish an evaluation review committee to ensure the incorporation of lessons learned in one project into similar projects under formulation. Several other changes were brought to UNCDF monitoring and evaluation systems in 1995, with an emphasis on improving the rigour and quality of evaluations and introducing more professional methods and tools. New projects must now be formulated with a comprehensive monitoring and evaluation plan, including budgets, staffing arrangements and timetables for monitoring and evaluation activities, a very different approach from the relatively cursory treatment monitoring and evaluation has been given in the past. Key performance indicators and terms of reference for baseline data collection are now required of every project agreement. To assist this process, a tool kit with performance indicators by sector and guidelines for collecting baseline data has been developed and referenced in the Programme Operations Manual. Finally, UNCDF is also pioneering the involvement of local partners in designing and using monitoring and evaluation tools. Participatory evaluation techniques such as village monitoring cells and beneficiary assessments have been piloted. Considering that the definitions of project success by beneficiaries themselves can provide a more revealing measure of progress and impact, UNCDF has started organizing stakeholder workshops in order to select project performance indicators.

13. Restructuring. Over the last two years, UNCDF has taken a certain number of steps to improve its internal efficiency as well as its responsiveness to field concerns. In March 1995, the Fund abolished the two posts of division chief, and created a streamlined staff structure that offered both savings in administrative overheads and improved operational efficiency at headquarters. In addition, as part of its own efforts at organizational decentralization, the Fund will outpost country officers from headquarters to the field. It also has delegated additional authority to programme officers in recipient countries.

14. Joint programming. Efforts to ensure the complementarity and consistency of UNCDF programming with UNDP country programmes have increased substantially during 1995-1996. While there has always been a high degree of cooperation between the two, there is now greater synergy. Regarding co-financing at the country level, there are several strong examples of UNCDF projects that leverage UNDP resources. In Bhutan, UNCDF credit and LDF activities are closely integrated with the UNDP country cooperation framework to promote good governance and sustainable livelihood. A $2 million project in Malawi provides capital grant support for micro-projects involving the rehabilitation or improvement of small-scale social and economic infrastructure. In Uganda, UNCDF and the World Bank are designing a local development fund, whereby UNCDF will commit $8 million to pilot a participatory infrastructure planning approach. Upon success of the pilot, the World Bank will contribute up to $100 million to broaden the scope of the fund. In Cambodia, UNCDF has two local development fund projects, both of which were structurally integrated into the UNDP/United Nations Office for Project Services Cambodia Rehabilitation and Resettlement (CARERE) project at the formulation phase. In Zambia, the $3.7 million, five-year District Development Planning and Implementation project exemplifies UNDP and UNCDF joint support to decentralized financing, planning and management of the infrastructure.

15. Financial management. From a record level of $42.8 million in 1991, contributions decreased significantly to $39.2 million in 1992; $33.8 million in 1993; and $31.4 million in 1994. The year 1995, however, witnessed an increase in contributions to $32.9 million, with $34 million expected as a total in 1996. The projected totals expected for 1997 and 1998 are $35 million and $37 million respectively (see figure 4). The increase in contributions and UNCDF core funding for the next three years is a direct result of the challenge that it issued to donors. In a decision reached earlier in 1996, UNCDF major donors (in a meeting at which the Governments of Belgium, Denmark, France, Japan, the Netherlands, Norway, Sweden and Switzerland were represented) agreed to continue financing UNCDF at current or increased levels through 1999. During this period, the Fund should demonstrate greater effectiveness in implementing its policies favouring decentralization and local governance. The donors recognized that the new UNCDF policy focus is aimed at giving new momentum to the work of the organization. In 1999, the donors will undertake an evaluation of UNCDF performance, on which they will report to the Executive Board. If the Fund has not made sufficient progress towards implementing its new policies by that time, its funding may be discontinued.

Figure 4 UNCDF contributions 1991-1998 (1996-1998 estimated)



III. EXECUTIVE BOARD ACTION

The Executive Board may wish to:

1. Take note of the present report;

2. Appeal to all countries to increase their contributions to the United Nations Capital Development Fund;

3. Endorse and support the United Nations Capital Development Fund efforts to concentrate its area of activity on good local governance, decentralization and participation within the context of its mandate.